

**TESTIMONY OF R. ARNOLD ELLISON
HARBOR ISLAND UTILITIES, INC.
(SCPSC DOCKET #2002-239-W/S)**

POSTED
06/11-5.02

2007 NOV -5 AM 10:35
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Q. PLEASE STATE YOUR NAME AND ADDRESS FOR THE COMMISSION.

A. My name is R. Arnold Ellison. I reside at 23 Long Marsh Lane,
Hilton Head Island, SC.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am semi-retired, but do professional engineering consulting
through ELLISON CONSULTING, LLC.

Q. WHAT IS YOUR ASSOCIATION WITH HARBOR ISLAND UTILITIES, INC.?

A. I was the previous owner of Harbor Island Utilities before it was
sold to Mr. Gross in 2000. I am now an investor in the Utility.

Q. TO WHOM DOES HARBOR ISLAND UTILITIES PROVIDE SERVICE?

A. The Utility provides water and sewer service to the residents and
commercial establishments located within the gated community
of Harbor Island in Beaufort County.

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Q. WHAT IS THE REASON FOR THE PROPOSED WATER AND SEWER RATES REQUESTED?

- A. As stated in Mr. Gross' testimony, the last adjustments to the rates were approved effective August 1, 1998. Continuing to operate the water and sewer systems under the currently approved rates has failed to provide an adequate or reasonable operating margin for the past two years. For FY-00 the net revenues over expenses was (\$10,356) while the net revenues over expenses for FY-01 was (\$62,120).

Harbor Island Utilities purchases the potable water it sells from the Beaufort-Jasper Water and Sewer Authority (BJWSA) at a wholesale rate and has to pay the Fripp Island Public Service District a transportation fee for use of its water main between the BJWSA main on St. Helena Island and Harbor Island. Since the last rate adjustment in 1998, the BJWSA has raised its wholesale rate by 5.76%. The Fripp Island Public Service District has also increased its transportation fee since the last rate increase by 20%.

In addition, Harbor Island Utilities has been informed by the South Carolina Department of Transportation (SCDOT) of its plan to construct a new bridge on US Highway 21 from Harbor Island to Hunting Island. This will require Harbor Island Utilities to pay for relocation of its 6-inch main that transports treated wastewater from Harbor Island to Fripp Island for disposal on a golf course.

Q. HOW DOES THE REQUESTED WATER RATE INCREASE ADDRESS THE INCREASED COSTS AT HARBOR ISLAND UTILITIES?

- A. In this application, Harbor Island Utilities is asking for an adjustment of the water base rate from \$11.69 per month to \$18.50 per month and an increase in the commodity rate from \$3.50 per 1000 gallons used to \$3.60 per 1000 gallons used. These increases will provide an operating margin of 15.5%.

Q. HOW DOES THE REQUESTED SEWER RATE INCREASE ADDRESS THE INCREASED COSTS AT HARBOR ISLAND UTILITIES?

- A. In this application, Harbor Island Utilities is asking for a sewer rate adjustment from \$26.00 per month to \$29.50. For the 354 sewer customers, the increased revenues will provide an operating margin of 16.5%.

Q. HOW DOES HARBOR ISLAND UTILITIES PLAN ON HANDLING THE FINANCING OF THE EFFLUENT LINE RELOCATION ON US HIGHWAY 21?

- A. We recognize that the SCPSC will not allow rate adjustments without proof of actual expenditures. The Utility will need to award its own contract for the line relocation.

The cost for this required work is approximately \$70,000, thus it will be necessary for the Utility to seek a loan. Based on an interest

rate of 6.5% over 15 years, the annual debt payment of principal and interest will be \$7,443. For the 354 sewer customers the sewer rate will need to be increased monthly by an estimated \$1.75.

It is the Utility's request that it be allowed to increase its sewer rate by the exact amount required for the debt services (P & I) when the contract and loan are finalized. The Commission will be requested to approve this incremental rate adjustment in the future when the construction costs are known. The Utility will not be asking for a margin on these expenditures.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

TESTIMONY OF ROBERT G. GROSS
HARBOR ISLAND UTILITIES, INC.
(SCPSC DOCKET #2002-239-W/S)

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION FOR THE COMMISSION.

A. My name is Robert G. Gross and I reside at 1614 Riverside Drive in Beaufort, South Carolina 29902-6436. My occupation is an environmental engineer.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Beaufort Group, LLC, a South Carolina limited liability company that provides professional services in environmental management, operations, and consulting to private and municipal clients. I serve as its president, and I am a professional engineer licensed to practice in the State of South Carolina.

Q. WHAT IS YOUR ASSOCIATION WITH HARBOR ISLAND UTILITIES, INC.?

A. I am the owner and president of Harbor Island Utilities, Inc. Through a contract, my other company, The Beaufort Group, LLC, provides the administration, operation and maintenance of the Utility.

Q. HOW LONG HAVE YOU BEEN AFFILIATED WITH HARBOR ISLAND UTILITIES, INC.?

A. I acquired Harbor Island Utilities, Inc. in February of 2000.

Q. PLEASE EXPLAIN THE RELATIONSHIP BETWEEN HARBOR ISLAND UTILITIES, INC. AND THE BEAUFORT-JASPER WATER AND SEWER AUTHORITY.

A. Harbor Island Utilities, Inc. purchases potable water from the Beaufort-Jasper Water & Sewer Authority (BJWSA) at a wholesale rate and sells it at a retail rate to customers on Harbor Island.

Q. PLEASE EXPLAIN THE RELATIONSHIP BETWEEN HARBOR ISLAND UTILITIES, INC. AND THE FRIPP ISLAND PUBLIC SERVICE DISTRICT.

A. The water that Harbor Island Utilities purchases from BJWSA comes from a water line installed and owned by the Fripp Island Public Service District (FIPSD). That line transports water from the end of the BJWSA line on St. Helena Island, across Harbor Island, and on to Fripp Island. Harbor Island Utilities pays a transportation fee to the FIPSD for the use of that line.

Additionally, Harbor Island Utilities collects and treats the sewage generated on Harbor Island. The treated effluent is pumped to Fripp Island where it mixes with the treated effluent from the FIPSD prior to being disposed of on the local golf course.

Q. WHAT ARE THE MAJOR REASONS FOR ASKING FOR A RATE INCREASE AT THIS TIME?

- A. The rates at Harbor Island have not increased since 1998 while operational and maintenance costs have risen as the system continues to age.

The earlier-mentioned transportation fee paid to FIPSD has risen each year for the past four years.

The force main that transports treated effluent to Fripp Island is attached to a SCDOT bridge that crosses nearby Johnson Creek. SCDOT is going to rebuild the bridge beginning in January 2003 and Harbor Island Utilities must relocate the effluent line at its own cost to the new bridge.

Q. DID YOU PREPARE THIS RATE CASE?

- A. No, Mr. Arnold Ellison, a professional engineer and the previous owner of the Utility prepared the rate case. He will be a witness for the Utility and will be able to answer questions regarding the submittal.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

- A. Yes.



HARBOR ISLAND UTILITIES, INC.

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November 5, 2002

Mr. Gary E. Walsh
Executive Director
Public Service Commission of South Carolina
P.O. Drawer 11649
Columbia, SC 29211

Re: SCPSC Docket #2002-239-W/S

Dear Mr. Walsh:

This letter certifies that twenty-five copies of our testimony were delivered to Mr. Bill Richardson of the PSC staff on November 4, 2002. Additionally, one copy of the testimony was mailed today to Mr. Charles Knight, The Consumer Advocate.

To the best of our knowledge, no one else is required to receive a copy.

Sincerely,

Robert G. Gross
President